South Fremont/Warm Springs Area Studies

Appendix A: Baseline Market Analysis

Economic & Planning Systems, Inc.

STRATEGIC ECONOMICS

September 2011

Table of Contents

List of Tables

List of Tables

List of Figures

I. EXECUTIVE SUMMARY

Purpose

The initial baseline market trends assessment provides market information to evaluate and judge the potential for the reuse and redevelopment of the South Fremont/Warm Springs Study Area in the short and long term. This baseline market trend report provides an understanding of current conditions as well as emerging opportunities by building from previous studies completed by the Economics Team and using the latest market information, data and key informant feedback.

Major Conclusions

Residential

- Fremont is one of the strongest housing markets within its local trade area, with residents drawn to the quality schools and neighborhoods within a bargain-priced city relative to the Central Bay Area.
- Demand for condominium and apartment housing is gradually increasing in Fremont, but demand is strongest for single-family homes and other family-friendly housing. Condominium demand is likely to increase when single-family home prices increase.
- Regional housing demand and diminishing supplies of developable land will result in long-term price increases and increasingly dense products, including small-lot single-family homes, townhomes, condominiums, and apartments.
- The market is supplying a limited number of higher-density condominium, townhouse, and apartment building types compared to older, large suburban models, but these new buildings are currently too scattered and located along busy automobile corridors to generate a TOD-style neighborhood.
- Projections indicate demand for between 3,900 and 5,900 compact, TOD housing units over the next 25 years in Fremont. ABAG projects additions of 14,880 new households in Fremont over that same period.
- Capture of TOD housing market segments will depend on concentrating denser developments within one or two walkable and transit-accessible areas, and addition of nonresidential uses (e.g., local-serving retail) that generate a value premium for these areas.
- Early development near the BART station area would likely be limited to below 30 dwelling units per acre because of financial feasibility constraints. More transit-supportive densities would not be achievable in the short term.

Retail

- There is a mismatch between consumer preferences and existing retail creating demand for high-end retail in an urban format.

- There is long-term demand for between 3.9 million and 4.9 million square feet of retail in Fremont.
- Much of this demand could be filled by adding to existing retail centers such as Pacific Commons and in Midtown.
- Pruning of dispersed retail located outside of existing clusters is necessary to strengthen key retail nodes that focus on good locations and a strong tenant mix, and create a critical mass.
- Midtown is the best location to focus efforts to develop an urban shopping district.
- Since financial feasibility issues hamper the addition of a significant amount of rooftops in the study area and the City has identified Midtown as a priority, near- to mid-term retail development in the study area should focus on community-serving retail. The retail format (i.e., mixed-use, stand-alone, strip) will be driven by physical context and placemaking goals.
- Highway access and visibility to certain parcels in the study area mean that it could be a good location for regional retail in the long term, depending on surrounding uses.

Hotel

- Strong regional access and good highway visibility make it an ideal location for Midrange and Economy hotels.
- Hotel growth in the area is tracked with regional employment growth, with large increases in the 1980s and 1990s. The sharp decline in construction in the 2000s is most likely tied to a similar decline the technology sector.
- Demand for hotels has been slow over the past decade and no new hotels have been built since 2002.
- Occupancy rates over the past six years have been modest and have not risen high enough to suggest unmet demand exists in the trade area.
- While there is limited demand for hotels in the short term, there could be demand for up to an additional 2,200 rooms or 15 hotels over the next 30 years.
- Given that this market service primarily business travelers, growth in employment is a likely prerequisite for hotel demand to increase.

Office

- The City of Fremont has historically attracted a dispersed range of small office users distributed throughout the City's numerous business districts.
- The City Center represents the primary cluster of Class A office space with densities approaching transit-supportive levels. It also represents the primary cluster of health services with hospitals, medical office, and other health service providers located in the area.

- Future office development in the City of Fremont will be driven by demand from growth in the health care services cluster for medical office space as well as by growth in the professional and financial services cluster.
- Job forecasts suggest the addition of 10,700 jobs requiring office space and 3,000 jobs requiring medical office space between 2010 and 2035. This represents a potential demand for 2.9 million square feet of office space and 800,000 square feet of medical office space.
- New Class A office space users, in the short and medium term, will occupy existing vacant space in the City Center and new development in Midtown, which provides the opportunity for development of up to 2 million square feet of new office development.
- The majority of demand for Class B/C office space is expected to locate in smaller existing and new buildings in the different business districts.
- The alternative locations for office development in the City, combined with the current industrial character of the Study Area, suggest a limited short- and medium-term demand for office development at transit supportive densities around the Warm Springs BART station.

R&D/Industrial

- The City of Fremont has a long history of accommodating a diverse range of industrial businesses that collectively provide a significant numbers of jobs and sales tax revenues to the City.
- The City currently has a significant supply of R&D space (over 20 million square feet—63 percent of I-80/880 Corridor R&D space) as well as about 9.6 million square feet of manufacturing space and 8.0 million square feet of warehouse/distribution space.
- The computer/communications manufacturing, clean technology, biotechnology, and logistics/distribution represent strong industry clusters for the City.
- Job forecasts suggest the addition of 5,600 jobs in R&D Flex space and about 10,000 jobs requiring manufacturing/warehouse and distribution space. This represents a potential demand for about 9.5 million square feet of R&D/industrial space through 2035.
- The City's three core industrial areas—Ardenwood, Baylands, and Warm Springs—each offers vacant development capacity that is collectively more than sufficient to meet the net additional demand for industrial land of over 400 acres through 2035.
- Ardenwood and Baylands subareas provide important components of the City's industrial development capacity, though alone do not offer sufficient vacant land to accommodate this potential new demand.
- A significant portion of the Warm Springs area could remain a critical component of the industrial backbone of the City attracting new R&D, manufacturing, and logistics/distribution uses to areas buffered from other uses and offering some large parcels.

Methodology and Assumptions

The initial baseline market trends assessment provides market information to evaluate the potential for reuse and redevelopment of the South Fremont/Warm Springs Study Area in the short and long term. The report relies on a variety of data sources and background work, including the Industrial Land Use Analysis for the General Plan (2008), the Fremont Market Analysis and Retail Study (2008), and the Fremont Economy: Present Realities and Future Possibilities (2001); latest real estate brokerage report information; the most current regional and local projection data sets; and other economic and market information. To round out the quantitative research, the Economics Team also conducted one-on-one and group interviews with local real estate brokers, developers, property owners, City staff, and business leaders to inform an understanding of current conditions as well as emerging opportunities.

This analysis relies on a number of assumptions and caveats including;

- Zoning in the study area could be amended to any of the land uses studied below.
- Local and regional population and employment projections generated by the Association of Bay Area Governments (ABAG) are accurate.
- Current or future owners would be inclined to develop the land in one of the land uses analyzed below when feasible from a market perspective.
- Compatibility of adjacent land uses was not considered.
- Financial feasibility was not considered. While some basic information about financial feasibility was available, a full feasibility analysis will be addressed in a future task.

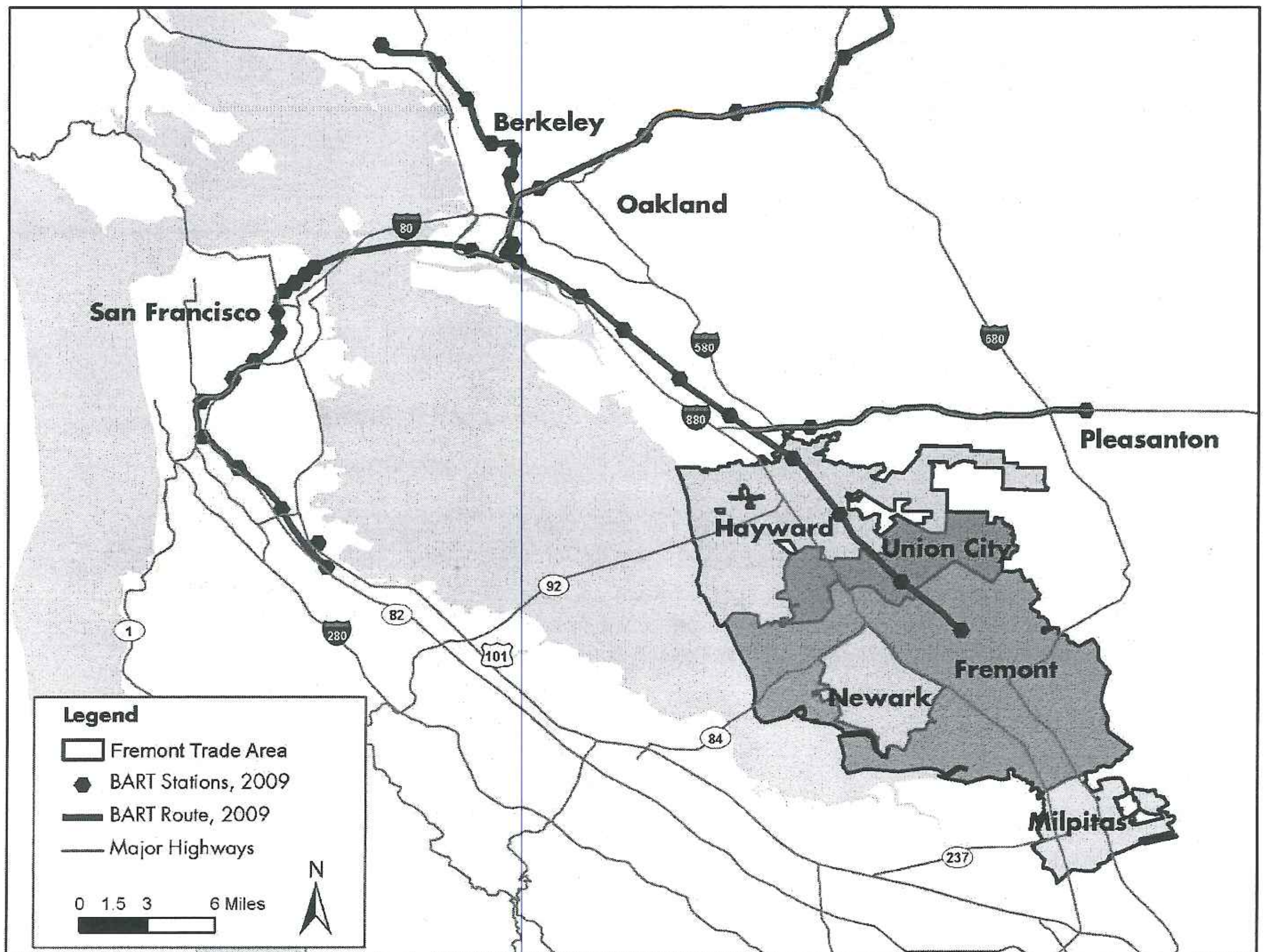
II. RESIDENTIAL

This chapter provides an overview of past, current, and future trends of the housing market in Fremont. Findings are based on the latest market and supply data sources and key informant interviews.

Trade Area

As with any city in the Bay Area, Fremont competes for residents from across the entire region. Locally, however, Fremont competes within a primary trade area encompassing the nearby cities of Newark, Union City, Hayward, and Milpitas. Brokers stated during interviews that buyers and renters searching for housing in the southern East Bay are most likely to compare these cities since they offer similar attributes; i.e., each is centrally located to particular employment centers, contains a high share of single-family and low-density multifamily housing stock, and most are known for being family-oriented and providing quality neighborhoods and school systems relative to the price of housing. See **Figure 1** for a map of the trade area.

Figure 1: Map of Fremont Residential Trade Area



Source: Strategic Economics, 2010.

Existing Supply and Trends

Fremont has a diverse housing stock totaling 72,000 units, including detached single-family, attached single-family, and multifamily housing types. Detached single-family homes comprise 60 percent of units, with another 10 percent of units located in attached single-family homes. The remaining 30 percent of units are located in multifamily apartment or condominium buildings (see **Figure 2**).

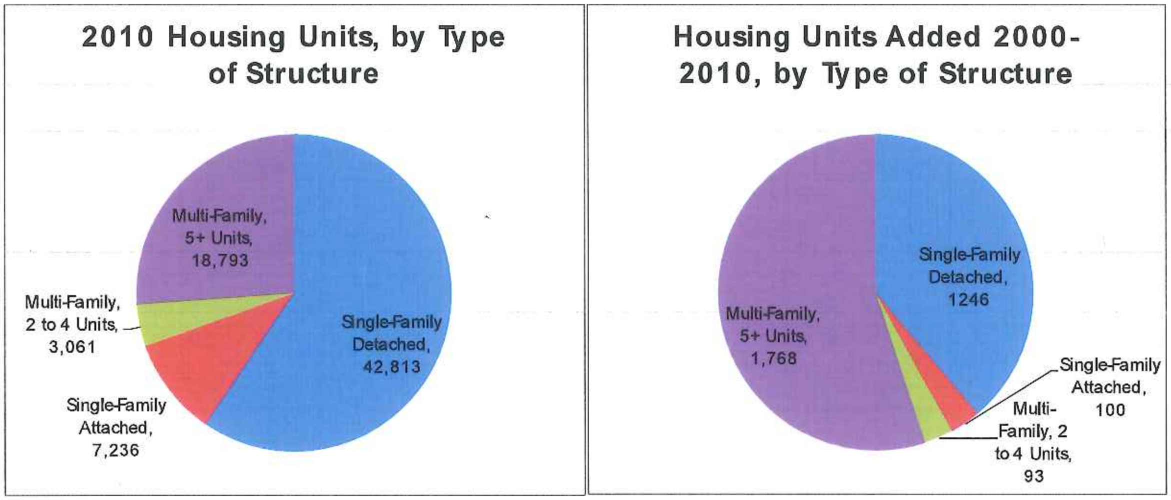
Recent construction trends show that multifamily unit construction now outpaces single-family construction. According to the California Department of Finance, 58 percent of units added in Fremont between 2000 and 2010 were located in multifamily structures, while attached and detached single-family homes only comprised 42 percent of new units (see **Figure 2**). Housing either currently being built or planned for construction will continue the trend of multifamily housing construction, as shown in **Figure 3**. Despite the trend, single-family detached homes still comprise a significant share of planned units.

The Economics Team examined final construction permit counts in Fremont to determine approximate absorption under recent market conditions. As shown in **Figure 4**, Fremont issued a peak of approximately 600 final permits during strong market periods in 2000-2001 and 2004-2005, a minimum of 80 in 2003-2004, and a ten-year average of 320 permits annually. Given this prior performance, it is reasonable to assume that Fremont can maintain a long-term average annual absorption of 250 to 350 units. The current extreme trough in the housing market cycle suggests that recovery may take several years, and average performance may ultimately skew closer to the low end of this range if lending standards and regulations become and remain more stringent over the long-term.

Review of existing and recent developments indicates that a gradual shift is occurring toward denser housing types in Fremont. Aside from a few large remaining parcels of residential-zoned land near the Bay, Fremont is now largely built-out. The diminishing supply of developable land is encouraging development of more compact housing units. Fremont condominiums were historically developed as large-site, multi-building, two- to three-story self-contained complexes consisting solely of residences and amenities such as a clubhouse and pool; in contrast, planned development data shows retail components in several higher-density multifamily developments located in small, central infill locations such as near Mowry Avenue and Fremont Boulevard. New single-family home developments also tend to be built on small lot sizes and often include a mix of condominiums. However, these new developments are providing a small number of units relative to total housing stock and are too scattered to create critical mass to generate a neighborhood in which daily goods and services are easily and comfortably reached on foot.

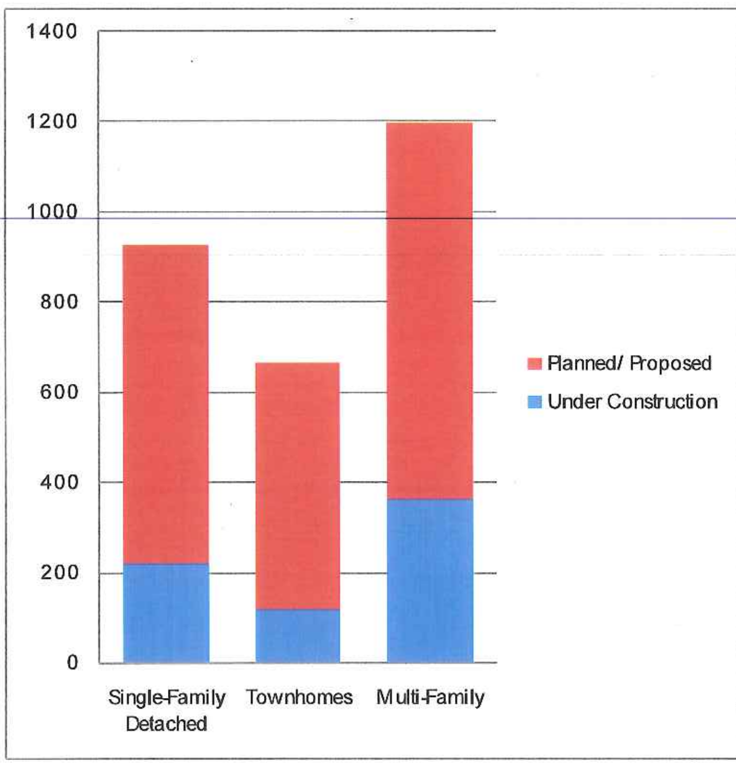
Despite its increasing housing diversity from greater multifamily unit construction, Fremont firmly remains a community of single-family residences. The approximately 3,800 multifamily and townhome units constructed or planned for construction since 2000 will make up approximately 5 percent of the City's housing stock, while another 2,200 single-family homes have been constructed or are proposed for construction over the same period—although review of recent housing developments shows that smaller lots sizes are also becoming common for these homes. The 60 percent share of detached single-family housing stock is unsurprising given that Fremont competes for residents partly based on its exceptional school system and that—as with the surrounding trade area—half of City households include children.

Figure 2: Comparison of 2010 Fremont Housing Stock and Units Constructed 2000 to 2010



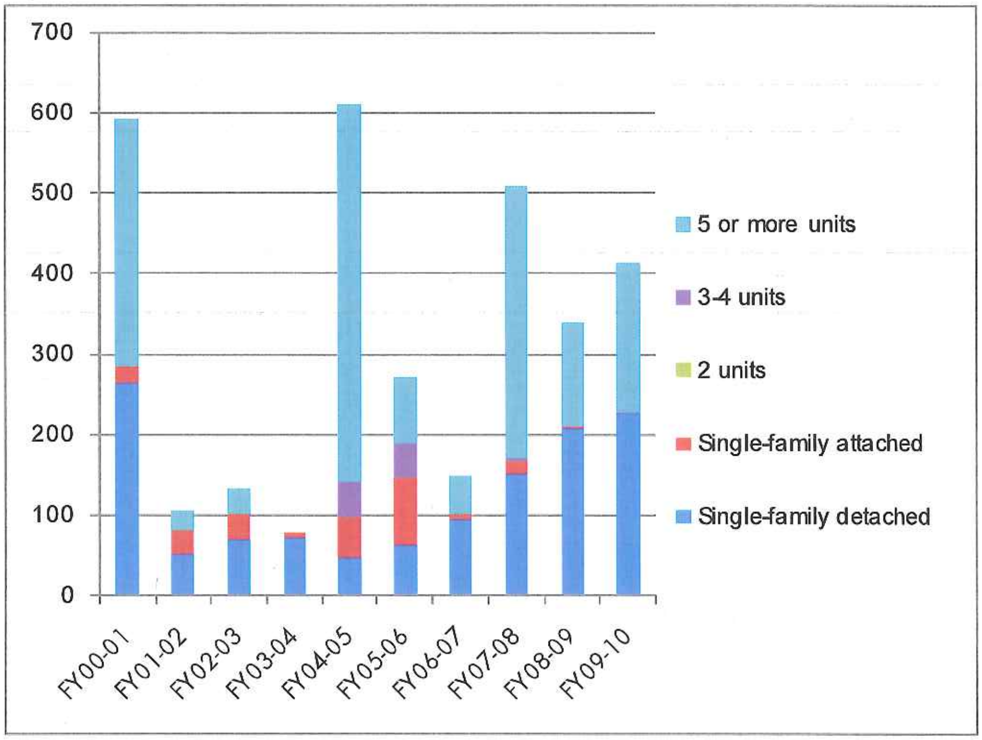
Source: California Department of Finance, 2010; Strategic Economics, 2010.

Figure 3: Planned/Proposed or Under Construction Fremont Housing Units



Source: City of Fremont, 2010; Strategic Economics, 2010.

Figure 4: Annual Final Unit Permits, by Number of Units in Structure and Structure Type



Source: City of Fremont, 2010; Strategic Economics, 2010.

Market Performance

Ownership Product

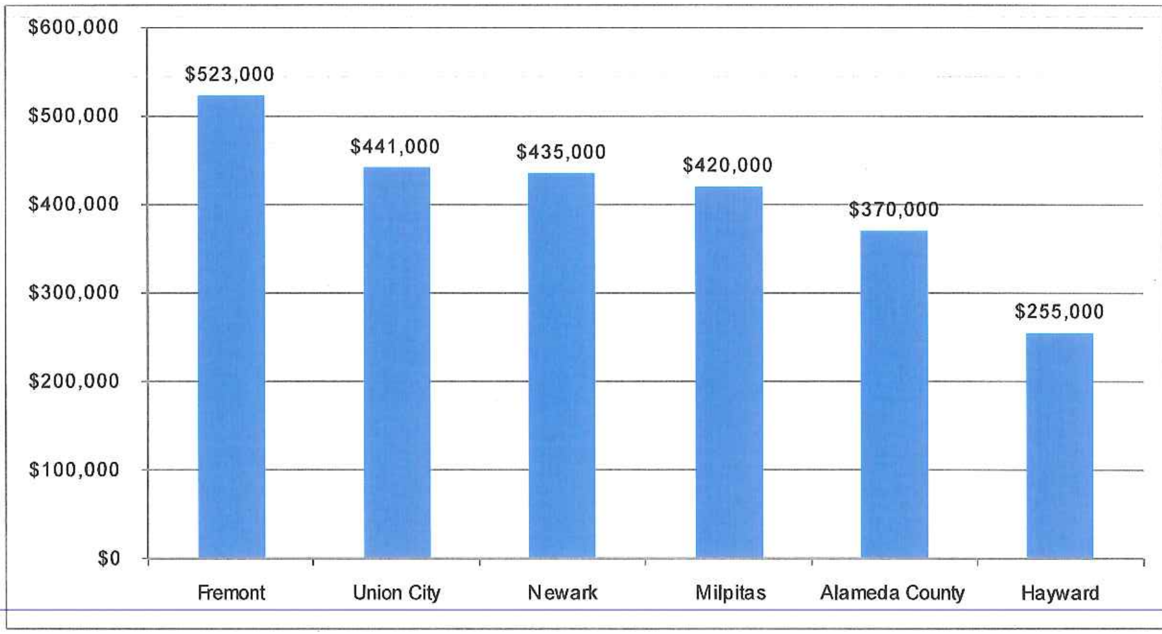
The overall ownership housing market in Fremont is characterized as follows:

- Relatively strong market within the local trade area.
- Price performance tracks the trade area, but is recovering more rapidly than other trade area cities.
- Single-family homes are most heavily favored.
- Condominiums sales tend to lag single-family homes.
- Most existing condominiums are of a similar low-density, residential-only design as single-family homes and therefore offer little added value when competing with single-family homes.
- Denser condominiums and single-family residences have begun to be built, including some with retail components.
- Only a critical mass of denser residences with adjacent retail will offer a differentiated product and increase the added value of purchasing such residences.

According to real estate data service Dataquick, the median sales price in Fremont is currently higher than Alameda County and the four other cities within Fremont's trade area (Union City, Newark, Milpitas, and Hayward). This pattern has held true over time, as shown in **Figure 5.**

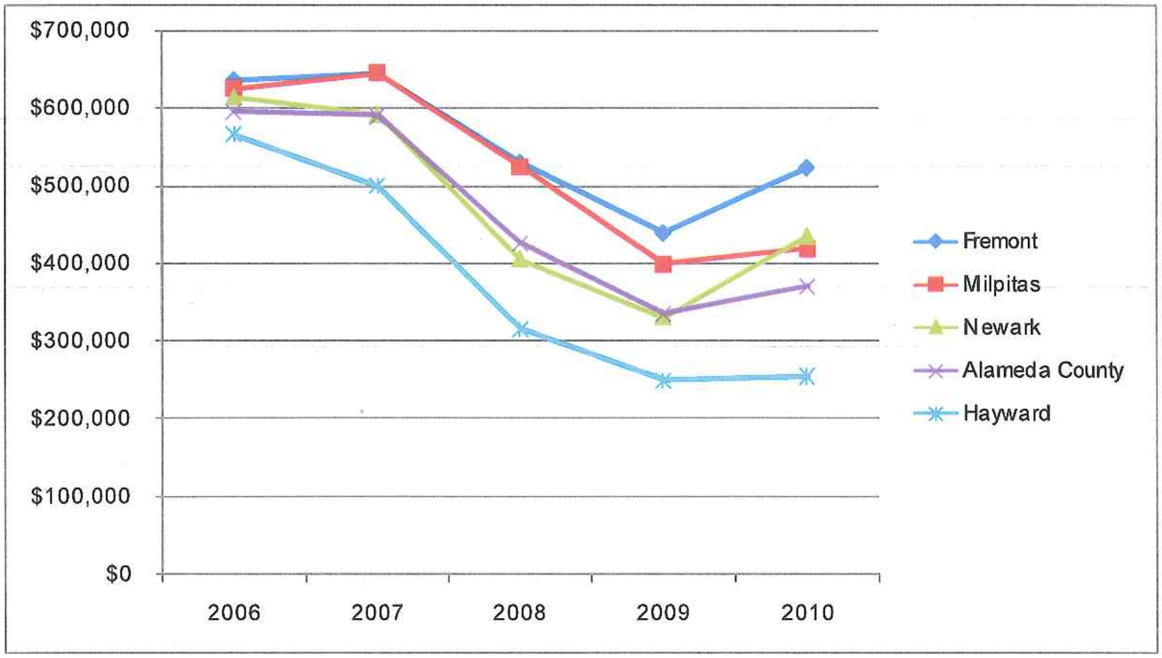
Fremont's higher median sales prices are partly explained by its inclusion of a large number of affluent hillside neighborhoods in the east. The price gradient map in **Figure 6** demonstrates the differing prices found between the hills and lower-lying neighborhoods.

Figure 5: 2010 Median Sales Prices by City/County



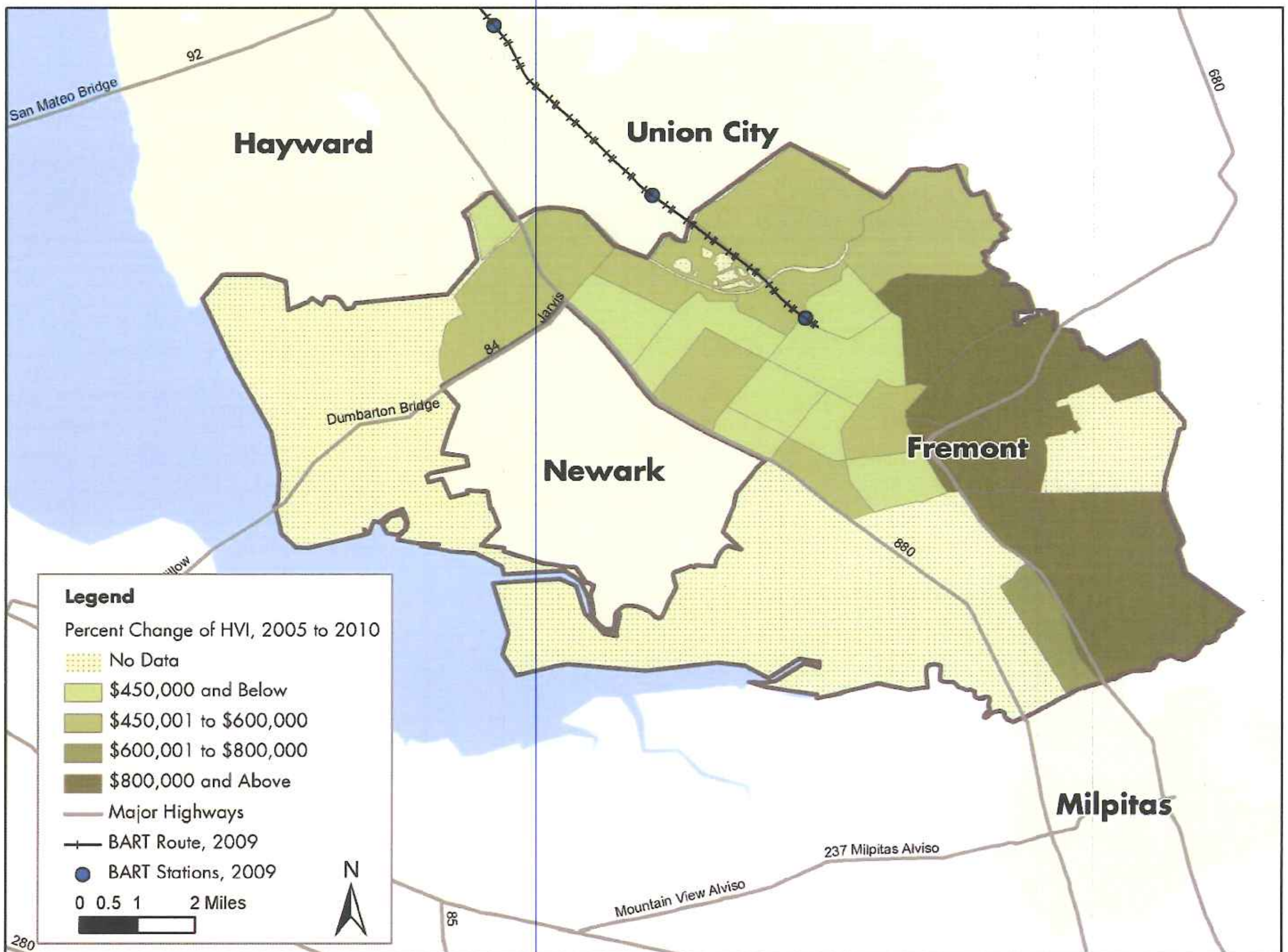
Source: Dataquick, 2010; Strategic Economics, 2010.

Figure 6: Historic Median Sales Price Performance by City/County



Source: Dataquick, 2010; Strategic Economics, 2010.

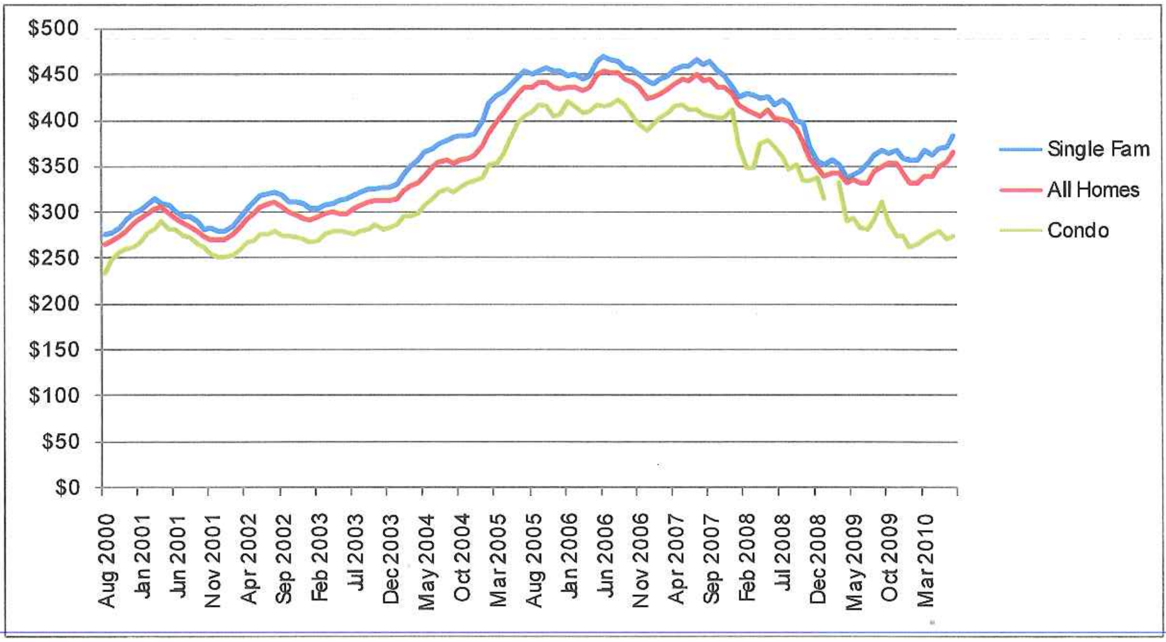
Figure 7: 2010 Median Price Gradients in the City of Fremont



Source: Zillow.com, 2010; Strategic Economics, 2010.

Within Fremont, single-family homes command a higher price per square foot than condominium developments, as shown in **Figure 8**. Local brokers stated that, despite recent increases in condominium construction, demand for condominiums is weak compared to single-family homes. In recent years, the housing downtown has led to a decline in single-family home prices, placing homes within reach of budget-conscious purchasers previously only able to afford attached housing products.

Figure 8: Median Sales Price per Square Foot in Fremont



Source: Zillow.com, 2010; Strategic Economics, 2010.

For new homes, single-family units can command higher asking prices per square foot than condominiums. Asking prices for townhouses exceed single-family homes, but the data is skewed by a single project with much higher than average asking prices. Without that project's inclusion, average townhouse asking prices per square foot are comparable to single-family homes.

Table 1: Average Asking Price per Square Foot for New Developments within Trade Area

Product Type	Price per Sq Ft
Condo	$295
Single Family	$314
Townhouse	$343

Source: Hanley Wood, 2010; Strategic Economics, 2010.

Despite the downturn in the housing market, data service Hanley-Wood shows several recently-constructed ownership housing developments with units currently on the market. **Table 2** lists these housing developments. As shown, there is a greater supply of single-family housing developments than multifamily housing developments currently on the market.

Local brokers stated that Fremont contains a wide variety of neighborhoods offering a variety of prices, but is generally a mid-priced city within the larger region. That is, residents move to Fremont for its relative bargain prices within a city of quality neighborhoods, but also move out to seek less expensive options. Broker opinions agreed with the data showing that Fremont is the strongest of the immediate five-city market area.

Fremont's existing condominiums offer little value premium over owning a single-family home; older projects are large, suburban, self-contained complexes not dissimilar from older single-family home neighborhoods. These product types tend to be more affordable than single-family homes, but do not provide urban amenities such as ground floor retail, enhanced streetscapes, or gathering spaces. Trends in regional demographics and Fremont's recent construction and pricing suggest an opportunity to raise the value of more compact housing types such as condominiums, townhomes, and small-lot single-family homes, provided that the associated amenities of a "walkable" environment are included, such as pedestrian-friendly retail or access to transit. Such an environment can capture a new subset of regional housing demand by appealing to smaller and child-free households interested in a walkable, urban lifestyle that reduces automobile dependency. Inventory and price trends already show increasing development of denser products and a value premium for recently-constructed townhomes. However, locations of these developments have been scattered. As will be discussed in this chapter's demand estimate, these denser, mixed-use developments must be concentrated within a single walkable area to create critical mass to successfully capture additional demand.